

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

As the management of Fond du Lac County (the County), we offer readers of the County's basic financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended 12/31/12. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the County exceeded its liabilities and deferred inflows of resources as of December 31, 2012 by \$97,569,252 (*net position*). Of this amount, unrestricted net position is a deficit of \$10,111,088.
- The County's total net position increased by \$35,718,582 (Governmental Activities increased by \$35,511,913; Business-type Activities increased by \$206,669). Several factors contributed to the overall increase as follows:
 - Conservative budgeting as well as County departments reducing costs led many departments to have unspent funds in their budgets. This resulted in savings in the general fund expenditures of \$3,829,073.
 - Savings in two Special Revenue funds resulted in \$2,421,334 of unspent funds being returned to the General Fund.
 - Interest and penalties on delinquent taxes was about \$135,000 (18%) higher than anticipated in the budget.
 - Jurisdictional transfer of state highways to the county accounted for \$29,437,000 of the increase in Governmental Activities net position.
- The property tax rate increased \$0.137 to \$5.685 per \$1,000 of property value for the budget year ended December 31, 2012.
- The property tax levy increased \$477,173 (1.24%) in support of the 2012 budget, over the prior year. Most of this increase was directed toward the public safety budget category (\$424,854).
- Monthly health insurance premium rate increases averaged 0.5% for 2012, over 2011 rates, resulting in a negligible impact on the 2012 budget.
- Investment earnings increased \$31,798 from the prior year (after \$56,481, \$238,873 and \$653,567 decreases the last three years respectively) due to the continuing, historically low interest rates of return.
- As of December 31, 2012, the County's governmental funds reported combined ending fund balances of \$21,607,746, a decrease of \$27,216,977 in comparison with the prior year end, due to the March, 2012 payoff of \$33,225,000 of refunding bonds issued in December, 2011. Approximately 60.2% of this total amount, \$13,007,487 is available for spending at the County's discretion (*assigned and unassigned fund balance*).
- As of December 31, 2012, the unassigned fund balance for the general fund was \$6,077,133, or approximately 15.5% of total general fund expenditures.
- The County's total general obligation debt decreased by \$35,625,000 (34%) during 2012. \$31,755,000 of general obligation refunding bonds were issued in December, 2011, and not disbursed until March, 2012. If these refunding bonds are not included, the County's paid \$3,870,000 of general obligation debt principal in 2012.

FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fond du Lac County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the County's assets, liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include: general government, public safety, public works, health and human services, culture, recreation, and education and conservation and development. The business-type activities of the County include: a highway operation, a health care facility, an airport, a golf course and a closed solid waste landfill.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also a legally separate Housing Authority of Fond du Lac County for which the County is financially accountable. Financial information for the *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 15 -18 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

The County maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, county road & bridge fund, department of community programs fund, department of social services fund, capital projects fund and debt service fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for all its governmental funds. As part of the basic governmental fund financial statements, budgetary comparison statements have been provided for the general fund and for each individual, major special revenue fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 19 - 28 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its highway operation, skilled nursing facility, airport, golf course and solid waste landfill. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its central maintenance and its health self-insurance services. Because these services predominantly benefit governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the highway operation, skilled nursing facility and airport, all of which are considered to be major funds of the County. Data from the other enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of *combining statements* elsewhere in this report. Data from the internal service fund is presented as a single column in the proprietary fund financial statements. Individual fund data for each of these internal service funds is provided in the form of combining statements elsewhere in the report.

The basic proprietary fund financial statements can be found on pages 29 - 32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 33 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 34 - 57 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds and internal service funds are presented immediately following the notes to the basic financial statements. Combining and individual fund statements and schedules can be found on pages 60 - 93 of this report.

FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

Government-wide Financial Analysis

Net position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities and deferred inflows of resources by \$97,569,252 at the close of 2012.

| Fond du Lac County's Net Position | | | | | | |
|--|----------------------------|----------------------------|-----------------------------|-----------------------------|---------------|---------------|
| | Governmental Activities | Governmental Activities | Business-Type Activities | Business-Type Activities | Total | Total |
| | 2012 | 2011 * | 2012 | 2011 | 2012 | 2011 * |
| Current and other assets | \$ 98,336,408 | \$146,789,798 | \$ 4,842,031 | \$ 3,915,234 | \$103,178,439 | \$150,705,032 |
| Capital assets | 105,774,364 | 77,589,809 | 17,603,290 | 17,391,950 | 123,377,654 | 94,981,759 |
| Total assets | 204,110,772 | 224,379,607 | 22,445,321 | 21,307,184 | 226,556,093 | 245,686,791 |
| Long-term liabilities outstanding | 77,889,527 | 112,596,955 | 1,053,105 | 1,030,583 | 78,942,632 | 113,627,538 |
| Other liabilities | 7,911,990 | 45,942,064 | 2,143,662 | 2,492,146 | 10,055,652 | 48,434,210 |
| Total liabilities | 85,801,517 | 158,539,019 | 3,196,767 | 3,522,729 | 88,998,284 | 162,061,748 |
| Deferred inflows of resources | | | | | | |
| Property taxes | 38,731,127 | - | 1,257,430 | - | 39,988,557 | - |
| Net position: | | | | | | |
| Net investment in capital assets | 85,054,364 | 51,813,490 | 17,522,611 | 17,277,565 | 102,576,975 | 69,091,055 |
| Restricted | 4,841,950 | 363,800 | 261,415 | 261,415 | 5,103,365 | 625,215 |
| Unrestricted (deficit) | (10,318,186) | 13,663,298 | 207,098 | 245,475 | (10,111,088) | 13,908,773 |
| Total net position | \$ 79,578,128 | \$ 65,840,588 | \$ 17,991,124 | \$ 17,784,455 | \$ 97,569,252 | \$ 83,625,043 |
| *2011 has not been restated for change in accounting principles. See footnote D. 8. page 56. | | | | | | |

By far the largest portion of the County's net position reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, infrastructure, etc.), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although, the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion (\$5,103,365) of the County's net position (5.2%) represents resources that are subject to external restrictions on how they may be used

Depreciation expense for governmental activities reflected in the statement of activities is \$6,614,184. This is an expense without a cash flow so there is no offsetting revenue (tax levy) reflected in the statement of activities. This would have the effect of reducing net position in the statement of activities.

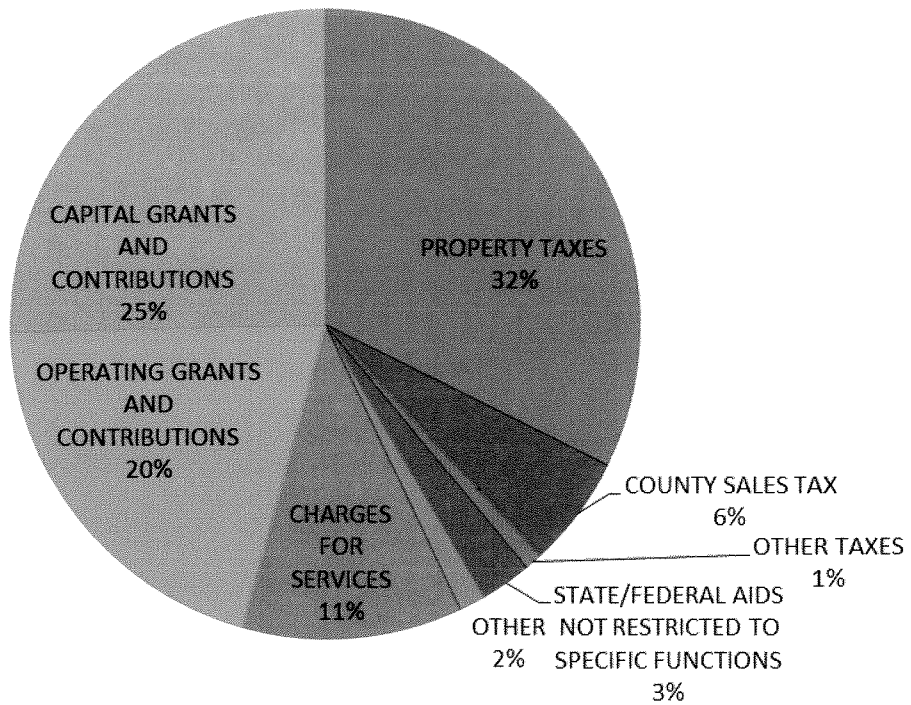
FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

Change in net position. At the end of the current fiscal year, governmental activities increased the County's net position by \$35,511,913, while business-type activities increased net position by \$206,669. Key elements of the change in net position are as follows:

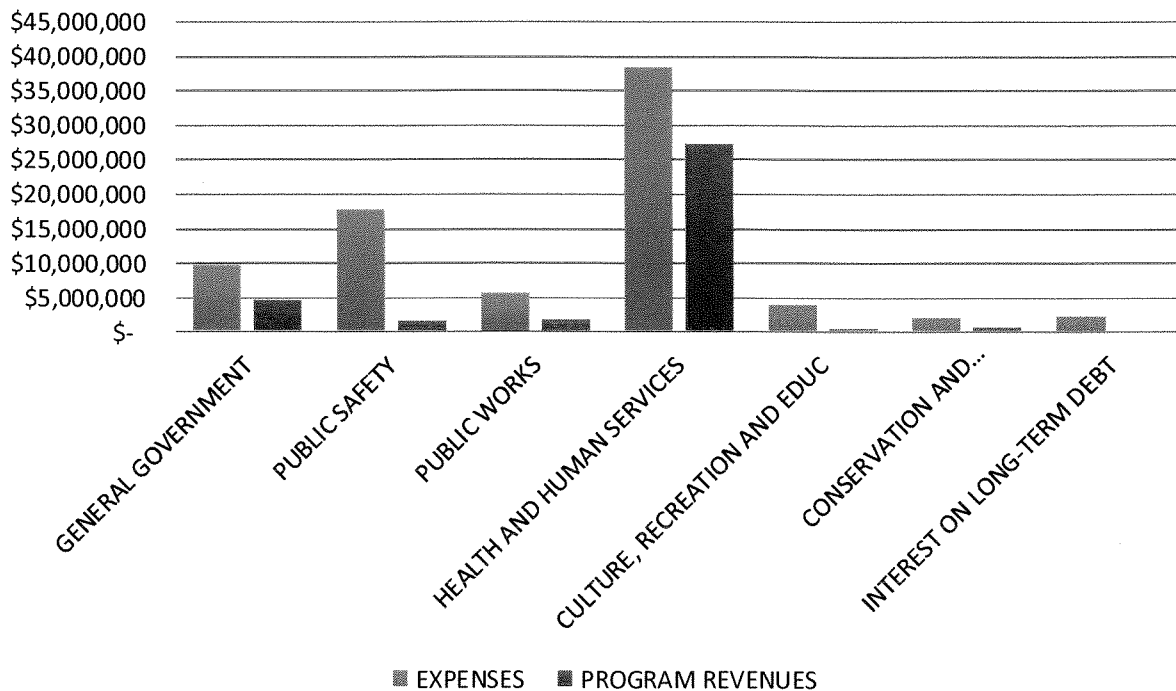
| Fond du Lac County's Change in Net Position | | | | | | |
|---|----------------------------|----------------------------|-----------------------------|-----------------------------|---------------|---------------|
| | Governmental Activities | Governmental Activities | Business-Type Activities | Business-Type Activities | Total | Total |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$13,113,028 | \$ 15,691,911 | \$ 21,420,425 | \$ 20,616,488 | \$ 34,533,453 | \$ 36,308,399 |
| Operating grants and contributions | 23,550,661 | 18,271,184 | 1,138,333 | 988,163 | 24,688,994 | 19,259,347 |
| Capital grants and contributions | 29,437,000 | - | 322,558 | 668,694 | 29,759,558 | 668,694 |
| General revenues: | | | | | | |
| Property taxes | 37,504,545 | 36,688,293 | 1,371,804 | 1,648,806 | 38,876,349 | 38,337,099 |
| County sales tax | 6,688,614 | 6,634,231 | - | - | 6,688,614 | 6,634,231 |
| Other taxes | 1,034,815 | 1,079,561 | - | - | 1,034,815 | 1,079,561 |
| Current year loan forgiveness | 1,725,500 | - | - | - | 1,725,500 | - |
| State and federal aids not restricted to specific functions | 3,038,476 | 3,466,016 | - | - | 3,038,476 | 3,466,016 |
| Other | 1,606,146 | 552,397 | 23,361 | 187,988 | 635,062 | 740,385 |
| Total revenues | 115,973,285 | 82,383,593 | 24,276,481 | 24,110,139 | 140,249,766 | 106,493,732 |
| Expenses: | | | | | | |
| General government | 9,756,970 | 10,204,621 | - | - | 9,756,970 | 10,204,621 |
| Public safety | 17,832,267 | 17,648,207 | - | - | 17,832,267 | 17,648,207 |
| Public works | 5,857,929 | 4,240,806 | - | - | 5,857,929 | 4,240,806 |
| Health and human services | 38,398,041 | 33,596,243 | - | - | 38,398,041 | 33,596,243 |
| Culture, recreation and education | 3,831,680 | 3,820,115 | - | - | 3,831,680 | 3,820,115 |
| Conservation and development | 2,022,484 | 2,189,853 | - | - | 2,022,484 | 2,189,853 |
| Interest on long-term debt | 2,369,620 | 3,470,748 | - | - | 2,369,620 | 3,470,748 |
| Highway | - | - | 12,699,047 | 12,410,975 | 12,699,047 | 12,410,975 |
| Harbor Haven Health & Rehabilitation | - | - | 9,893,568 | 10,521,494 | 9,893,568 | 10,521,494 |
| Airport | - | - | 605,435 | 686,433 | 605,435 | 686,433 |
| Golf Course | - | - | 1,152,499 | 1,077,274 | 1,152,499 | 1,077,274 |
| Landfill | - | - | 111,644 | 107,274 | 111,644 | 107,274 |
| Total expenses | 80,068,991 | 75,170,593 | 24,462,193 | 24,803,450 | 105,159,934 | 99,974,043 |
| Increase (decrease) in net position before transfers | 35,904,294 | 7,213,000 | (185,712) | (693,311) | 35,718,582 | 6,519,689 |
| Transfers | (392,381) | (585,427) | 392,381 | 585,427 | - | - |
| Increase (decrease) in net position | 35,511,913 | 6,627,573 | 206,669 | (107,884) | 35,718,582 | 6,519,689 |
| Cumulative effect of change in accounting principle (Note D.8.) | (815,873) | - | - | - | (815,873) | - |
| Net position - beginning of year | 65,840,588 | 59,213,015 | 17,784,455 | 17,892,339 | 83,625,043 | 77,105,354 |
| Prior period adjustment (Note D.9.) | (20,958,500) | - | - | - | (20,958,500) | - |
| Net position - beginning of year (Restated) | 44,882,088 | 59,213,015 | 17,784,455 | 17,892,339 | 62,666,543 | 77,105,354 |
| Net position - end of year | \$ 79,578,128 | \$ 65,840,588 | \$ 17,991,124 | \$ 17,784,455 | \$ 97,569,252 | \$ 83,625,043 |

FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES

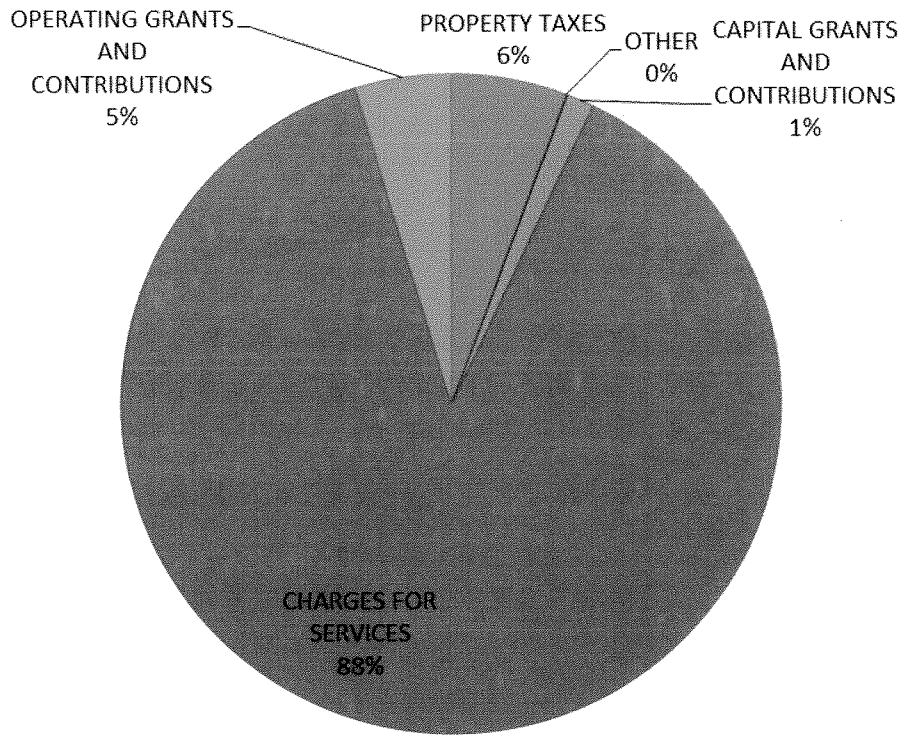


EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES

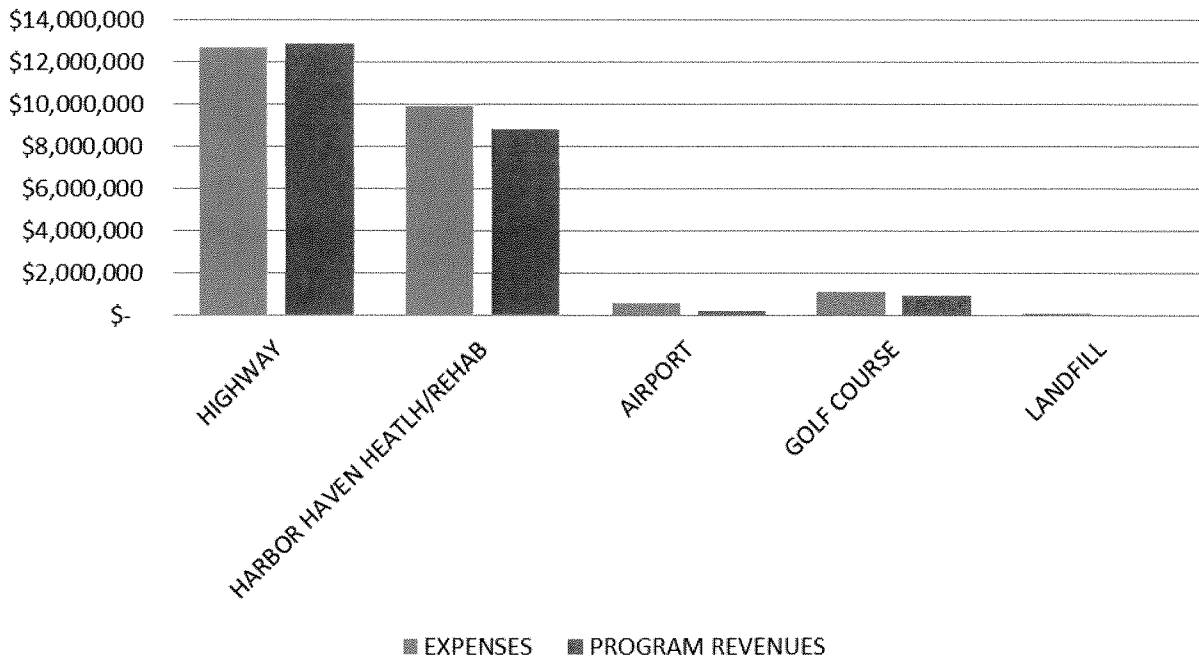


FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

REVENUES BY SOURCE-BUSINESS-TYPE ACTIVITIES



EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES



FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

As of year end, the County's governmental funds reported combined ending fund balances of \$21,607,746, a decrease of \$27,216,977 in comparison with the prior year. Approximately 60% of this amount (\$13,007,487) constitutes *assigned and unassigned fund balance*, which is available for spending at the County's discretion. In addition, \$4,841,950 is restricted for specific purposes as detailed in note C. 11 on page 52. The remainder of fund balance is considered *non-spendable* to indicate that it is not available for new spending because it is not in a spendable form as follows: 1) non-liquid delinquent taxes (\$1,743,685), 2) inventories and prepaid items (\$714,624) and 3) long term advance – golf course (\$1,300,000).

The general fund is the chief operating fund of the County. At the end of the current year, assigned and unassigned fund balance of the general fund was \$11,279,081, while total fund balance was \$15,093,071. As a measure of the general fund's liquidity, it may be useful to compare both assigned and unassigned fund balance and total fund balance to total fund expenditures. Assigned and unassigned general fund balance represents 29% of total general fund expenditures, while total fund balance represents 38% of that same amount.

The non-spendable fund balance for non-liquid delinquent property taxes decreased \$815 to \$1,743,685.

During the current year, the County's total general fund balance increased \$451,763. Some revenue categories saw actual revenue fall short of the final budgeted amount, most significantly in the Intergovernmental Charges for Services Revenue category (\$550,100, 20%). Actual expenditures in all categories were under final budgeted amounts (\$3,829,073, 9%).

The County Road & Bridge Fund has a total fund balance of \$1,722,780. All of this balance is assigned. The total fund balance represents 23% of total fund expenditures.

The Department of Community Programs has a total fund balance of \$38,575, decreasing \$128,445 from the prior year end, after a return of \$940,733 of excess budget surplus to the General Fund. The Department of Community Programs generally maintains a minimal fund balance, which is non-spendable for inventories and prepaid items and unassigned. Budget surplus is returned to the General Fund annually. The budget surplus was generated by expenditures, department wide, being under the final amended expenditure budget by approximately \$830,000.

The Department of Social Services has a total fund balance of \$239,997, increasing \$95,947 from the prior year end, after a return of \$1,480,601 of excess budget surplus to the General Fund. The Department of Social Services generally maintains a minimal fund balance, which is non-spendable for inventories and prepaid items and unassigned. Budget surplus is returned to the General Fund annually. The budget surplus was generated by expenditures, department wide, being under budget by approximately \$770,000. As of January 2012, Income Maintenance functions have been consolidated into a five county consortium (Washington, Ozaukee, Waukesha, Walworth and Fond du Lac). Fond du Lac County has been designated as the fiscal agent for this consortium; the impact of this designation was not included in the adopted 2012 budget.

FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

Proprietary funds. The County's proprietary funds provide the same type of information found in the County's government-wide financial statements, but in more detail.

Total net position of the major proprietary funds are listed in the following table. Also displayed in this table is the total growth (reduction) in net position for the current year.

| | Highway | Harbor Haven Health & Rehabilitation | Airport |
|---|--------------|--|---------------|
| Total Net Position – Beginning of Year | \$ 8,343,957 | \$ 2,293,729 | \$ 6,317,057 |
| Total Net Position – End of Year | 8,618,267 | 2,795,066 | 5,923,196 |
| Total Growth (Reduction) In Net Position | \$ 274,310 | \$ 501,337 | \$ (393,861) |

Intergovernmental Transfer Program payments to our nursing home increased approximately \$163,000 for 2012 from the prior year - the first increase in a number of years. The cost of operating a skilled nursing facility continues to escalate, while the Federal and State government continues to reduce funding levels for providing these services. This puts upward pressure on the tax levy demands to operate the County's skilled nursing facility.

Other factors concerning the finances of these funds have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Differences between the original adopted budget and the final amended budget amount to a \$3,440,544 (8.7%) net increase in appropriations for general operations and can be briefly summarized as follows:

- \$363,411 of new or additional revenue sources.
- No general fund appropriations were made during 2012.
- \$3,592,087 of carryover and open purchase order funding from 2011 to 2012 budget.

The County funded these changes from available fund balance and various grants awarded to departments.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounts to \$123,377,654 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, machinery and equipment, vehicles, public domain infrastructure (highways and bridges), and construction in progress, if applicable. The total increase in the County's investment in capital assets (net of accumulated depreciation) for the current year was \$28,395,895 or a 30% increase over last year (a \$28,184,555 increase for governmental activities and a \$211,340 increase for business-type activities). The jurisdictional transfer of state highways to the county accounted for \$29,437,000 of the increase in governmental activities investment in capital assets.

Remodeling of the Island Harbor unit and therapy areas at Harbor Haven Nursing & Rehabilitation in the Health Care Center continued throughout 2012.

FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

| Fond du Lac County's Capital Assets (net of accumulated depreciation) | | | | | | |
|---|-------------------------|----------------------|--------------------------|---------------------|----------------------|---------------------|
| | Governmental activities | | Business-type activities | | Total | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Work in progress | \$ 2,795,013 | \$ 1,483,040 | \$ 13,461 | \$ 5,860 | \$ 2,808,474 | \$ 1,488,900 |
| Land | 6,127,277 | 3,278,955 | 1,464,300 | 1,464,300 | 7,591,577 | 4,743,255 |
| Land improvements | 3,365,750 | 3,579,288 | 5,635,582 | 6,048,503 | 9,001,332 | 9,627,791 |
| Buildings/building improvements | 31,099,529 | 33,373,323 | 4,990,609 | 3,989,469 | 36,090,138 | 37,362,792 |
| Machinery/equipment | 2,761,084 | 3,309,756 | 5,499,338 | 5,883,818 | 8,260,422 | 9,193,574 |
| Infrastructure | 59,625,711 | 32,565,447 | - | - | 59,625,711 | 32,565,447 |
| Total | \$105,774,364 | \$ 77,589,809 | \$17,603,290 | \$17,391,950 | \$123,377,654 | \$94,981,759 |

Additional information on the County's capital assets can be found in Note C. 7 on pages 45 - 47 of this report.

Long-term debt. At the end of the current fiscal year, the County had total bonded debt outstanding of \$73,965,000:

| Fond du Lac County's Outstanding Debt General Obligation Debt (Amounts Expressed in \$1,000) | | | | | | |
|---|-------------------------|-------------------|--------------------------|-------------|------------------|------------------|
| | Governmental activities | | Business-type activities | | Total | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| General obligation debt: | | | | | | |
| Bonds | \$ 42,310 | \$ 44,560 | \$ - | \$ - | \$ 42,310 | \$ 44,560 |
| Notes | 31,655 | 65,030 | - | - | 31,655 | 65,030 |
| Total general obligation debt | \$ 73,965 | \$ 109,590 | \$ - | \$ - | \$ 73,965 | \$109,590 |

The County's total general obligation debt decreased \$35,625,000 (32.5%) during the current fiscal year. \$31,755,000 of general obligation refunding bonds were issued in December, 2011, but were not disbursed until March, 2012. If these refunding bonds are not included, the County's total general obligation debt decreased \$3,870,000 (5%).

The County maintains an Aa2 rating from Moody's Investors Service for its general obligation debt.

State statutes limit the amount of general obligation debt the County may issue to 5% of its total equalized valuation. The current debt limitation for the County is \$339,526,805, which is significantly in excess of the County's \$73,965,000 in outstanding general obligation debt.

Additional information on the County's long-term debt can be found in Note C. 9 on pages 48 - 50 of this report.

FOND DU LAC COUNTY, WISCONSIN
Management's Discussion and Analysis
December 31, 2012

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Fond du Lac County was 6.6% in December, 2012, down from 7.2% in December, 2011. This rate is comparable to the State of Wisconsin's average unemployment rate of 6.9% in December, 2012.
- The economic condition and outlook of the County has been negatively affected by the nation-wide economic crisis. Our relatively healthy mix of manufacturing, tourism, service industry, retail, and farming activities has not been able to shield us from a down turn in our economy. While we are not immune, the down turns, as well as the rebounds, take longer to show up here.
- Inflationary trends in our region compare favorably to national indices.
- At December 31, 2012, assigned and unassigned fund balance in the general fund totaled \$11,279,081, including \$1,800,000 of funding appropriated/applied in the 2013 adopted budget.

All of these factors were considered in preparing the County's budget for the 2013 fiscal year.

Limits have been imposed on the property tax levy rates for Wisconsin counties. There are separate limits for the operating levy and the debt service levy. The baseline for the limits is the actual 1992 tax rate adopted for the 1993 budget. The operating levy rate and the debt levy rate cannot exceed the baseline rates unless the County qualifies for one of the exceptions allowed under the statute. The statute establishes specific penalties for failure to meet the levy rate freeze requirements. Among the penalties for exceeding the limits is the reduction of state shared revenues and transportation aids. The 1992 law remains in effect although temporarily suspended for budget years 2012 and 2013. As the nation-wide economic crisis continues, the long term impact on property values in the county may cause these property tax levy rate limits to become an issue for more counties when preparing future year's budgets, such that levies will need to be reduced to achieve the 1992 tax rates.

Additionally, a levy limit was imposed in 2007, Wisconsin Act 20, that limits the increase in the levy to the greater of the percentage of net new construction growth or 3%. In 2011, Wisconsin Act 32 was passed, modifying the levy limit, such that the increase in the property tax levy is limited to the percentage of net new construction growth. For Fond du Lac County, the allowable increase was 0.953% for the 2012 budget year and 0.673% for the 2013 budget year.

Contacting the County's Financial Management

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Director, Fond du Lac County, Finance Department, 160 South Macy Street, Fond du Lac, WI 54935. The Finance Department may also be contacted via the internet. Please visit the Fond du Lac County website home page at www.fdlco.wi.gov, select the "Your Government" tab, then the "Finance" tab.

Questions concerning any of the information provided in this report regarding the discretely presented component unit, Housing Authority of Fond du Lac County, or requests for additional information, should be addressed to the Housing Authority of Fond du Lac County, 15 North Marr Street, Fond du Lac, WI 54935.